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HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR RJARPE
NSC FOR JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [VE](#)
SUBJECT: THE 64 BILLION DOLLAR QUESTION: HOW MUCH CASH
DOES THE BRV HAVE AVAILABLE?

REF: A. CARACAS 622
[1](#)B. CARACAS 276
[1](#)C. CARACAS 1428
[1](#)D. CARACAS 559
[1](#)E. 2007 CARACAS 2207
[1](#)F. CARACAS 190

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b)
and (d).

[1](#)1. (C) Summary: President Chavez has argued that the Bolivarian Republic of Venezuela (BRV) can endure a period of low oil prices by drawing down his government's savings. While no one disputes the BRV Government (GBRV) has accumulated financial assets during the oil bonanza, the value and liquidity of these assets is a wild card given the government's deliberate lack of transparency. Some estimates value these assets at as much as USD 125 billion (including international reserves, and with bolivars (Bs) converted to dollars at the official exchange rate). Figures of this magnitude, while perhaps technically correct given the methodology employed and information available, greatly overstate the actual value of liquid assets available to the GBRV over the next several years. A more plausible estimate would be USD 89 billion (with Bs converted to USD at the official rate), broken down as follows: USD 40 billion in reserves, USD 15 billion in funds outside of reserves, Bs 53 billion in bolivar assets, and the equivalent of USD 10 billion in funds whose denomination (Bs or USD) is not clear. Even this estimate overstates the GBRV's room to maneuver. A significant drawdown of these assets, should it take place, could provoke an economic crisis before they were depleted. End summary.

International Economic Crisis? No Problem

[1](#)2. (U) GBRV officials have adopted a nonchalant attitude in public regarding the potential impact of the international financial crisis on Venezuela. President Chavez and Minister of Finance Ali Rodriguez have both argued that Venezuela has enough savings to weather a period of low oil prices. According to press reports, Chavez told the Council of Ministers that Venezuela has USD 100 billion in reserves and special funds, including USD 40 billion in reserves at the Central Bank (BCV), USD 30 billion in the National Development Fund (Fonden), and USD 12 billion in the

China-Venezuela joint fund (ref A). The chairman of the Finance Committee in the National Assembly, however, claimed the GBRV had USD 30 billion in funds outside of international reserves. To put these figures in perspective, Venezuela is on track to import USD 50 billion worth of goods in 2008, and its 2007 GDP was USD 225 billion, converting Bs to USD at the official rate of 2.15 Bs/USD.

Estimates All Over the Map

¶3. (C) Estimates by local economists of the GBRV's financial assets are similarly disparate. The BCV's figures for international reserves and the macroeconomic stabilization fund (FEM), currently at USD 39 billion and USD 1 billion respectively, are considered reliable. Excluding reserves and converting Bs to USD at the official rate, Sintesis Financiera (a local economic consultancy) estimates GBRV financial assets at USD 85 billion; Banco Mercantil (strictly protect) at USD 74 billion; Ecoanalytica (another consultancy) at USD 57 billion; Miguel Octavio (a blogger and financial sector executive) at USD 31 billion; and Hugo Faria (strictly protect; a local economist) at USD 25 billion.

¶4. (SBU) In part these estimates, which were generally made from July to September 2008, are so disparate because of differing methodologies. The Sintesis Financiera estimate, for example, is the only one which includes PDVSA's accounts receivables (USD 18 billion). The Ecoanalytica estimate includes funds with China and Iran as separate line items,

whereas other estimates include these funds only if they appear on the balance sheet of a GBRV institution. Some estimates include estimates of PDVSA's cash position; others do not.

¶5. (SBU) The central reason these estimates are so different, however, is a deliberate lack of transparency on the part of the GBRV. The BCV maintains transparency: it publishes the value of reserves it holds on a daily basis and a breakdown of the composition of the reserves on a monthly basis. On the other end of the transparency scale are Fonden and PDVSA. Fonden generally publishes a one-page balance sheet expressed in bolivars twice a year. This statement contains no important details (like how assets are invested), and the most recent statement (for the period ending June 30, 2008) was withdrawn from Fonden's website. President Chavez gives seemingly conflicting accounts of Fonden's available assets. We would not be surprised if Fonden's true financial situation is unknown to almost all senior BRV officials: one senior official in the Ministry of Finance told us he was once chastised for inquiring (ref B). For a more detailed discussion of the black box that is PDVSA's finances, see ref ¶C.

Looking at the Institutions

¶6. (C) Given the likelihood the GBRV will draw on its financial assets over the next year (ref C), the key question is how much these assets are worth should they be liquidated on short notice. The rest of this paragraph addresses this question by looking at the major institutions holding GBRV financial assets, distinguishing between hard currency (calculated in dollars) and bolivar assets.

-- BCV (international reserves and FEM). As of October 27, the BCV reported USD 39.3 billion in international reserves and USD 830 million in the FEM, for a total of USD 40 billion. Local economists believe these numbers are credible. Given the BCV's methodology, they should reflect the actual current value of the reserves. It would be difficult, however, for the BCV to liquidate its gold reserves, known as monetary gold, valued at USD 9.5 billion in September 2008. (Note: Given the de-facto subordination of the BCV to the GBRV, the GBRV can access BCV reserves by

having any amount above an optimum threshold, currently evaluated at USD 33 billion, transferred to Fonden. End note.)

-- BCV (GBRV deposits in bolivars). As of September 30, the BCV reported holding deposits of Bs 11.3 billion on behalf of public entities. Per the BCV's monetary base figures, updated weekly, the major depositors are the National Treasury, PDVSA, and other government entities, roughly in an 8:1:1 ratio.

-- Fonden. Fonden is the largest of a number of off-budget discretionary funds created by the GBRV. It is financed by transfers of hard currency from PDVSA and the BCV, and, according to a recent decree, by windfall "contributions" from oil producers (ref D). Fonden's June 30 2008 balance sheet showed assets of Bs 31.7 billion (USD 15 billion), of which Bs. 16.5 billion (USD 7.7 billion) was committed to projects but not yet executed. The current value, liquidity, and denomination (USD or Bs) of these assets are not known. According to the June balance sheet, Bs. 4.4 billion (USD 2 billion) are in cash and Bs. 27.2 billion (USD 12.6 billion) are in trust funds ("fideicomisos") apparently mostly managed by the Banco del Tesoro (see below).

-- Bades (Economic and Social Development Bank of Venezuela, a state-owned bank). Bades publishes a one-page balance sheet each month expressed in bolivars. Its most significant assets are Bs 15 billion (USD 7 billion) invested in securities, of which Bs 9 billion (USD 4 billion) apparently corresponds to China's portion of the China-Venezuela joint fund (ref E) and is held in a trust fund managed by the Banco del Tesoro (see below). (Note: Despite President Chavez'

announcement on his recent trip to China of an agreement to double the fund, a China Development Bank official (strictly protect) told EconOff that the bank, which loaned the initial USD 4 billion, was "studying" the proposal to double the fund and had not agreed to any further loans. End note.) Bades also manages trust funds worth Bs 21 billion (USD 10 billion), primarily on behalf of federal and regional government institutions. We do not know what percentage of the securities and trust funds are denominated in dollars, nor do we know the current value or liquidity of these assets. Sintesis Financiera "extrapolates based on informal information received almost a year ago" that 80 percent of the trust funds managed by Bades are dollar-denominated.

-- PDVSA. Only a few of the estimates presented in paragraph 3 included cash assets controlled by PDVSA. Ecoanalitica estimated the value of such assets at USD 1.3 billion, and Miguel Octavio asserted PDVSA "reportedly" had USD 3 billion and Bs 3 billion in cash. Given persistent indications of cash flow problems at PDVSA and the GBRV's voracious use of PDVSA revenue for social spending and transfers to Fonden, we do not believe PDVSA has significant liquid financial resources the BRV could tap. Although PDVSA has accumulated USD 21.5 billion in accounts receivable (according to its June 30, 2008 financial statement), the current market value of this supposed asset is probably negligible, as it represents future obligations from Petrocaribe participants (and possibly compensates for inflated sales).

-- Banking system deposits. Per statistics available from the Superintendency of Banks (SUDEBAN) and considered reasonably reliable, as of September 2008 the public sector had Bs 37 billion deposited in the local banking system. These bolivar-denominated assets are liquid, with the proviso that their large-scale withdrawal would cause immediate liquidity and near-term solvency problems at a number of smaller and medium-sized banks.

-- Office of the National Treasury (ONT). As noted above, the ONT maintains an account in Bs at the BCV. It also has assets in trust funds managed by Banco del Tesoro (see below). Finally, the ONT likely manages dollar assets in offshore accounts. Ecoanalitica valued the latter at USD 2.5 billion in August 2008 based on sources in the national

budget office. Other estimates do not include a line item for these assets; Sintesis Financiera, for example, notes there is no available information to allow an estimate.

-- Banco del Tesoro (a state-owned bank). Banco del Tesoro's capital is minimal, but according to its June 30, 2008 financial statement it manages significant trust funds valued at Bs 46 billion (USD 21.4 billion) on behalf of several GBRV entities, including Fonden (Bs 26 billion, or USD 12 billion), Bandes (Bs 12 billion, or USD 5.6), and the National Treasury (Bs 4 billion, or USD 1.8 billion). Per the financial statement, Bs 6 billion of the assets held by these trust funds are denominated in bolivars. The rest are denominated in dollars and mostly consist of short-term securities (generally maturing in less than one year) emitted by major international investment banks. The structure of these securities is unclear, making it impossible to estimate losses that might have resulted from the international financial crisis. Per the financial statement, USD 2 billion corresponded to structured notes backed by Argentine, Ecuadorian, and Venezuelan debt (ref F), and USD 500,000 corresponded to a securities emitted by Lehman Brothers. The funds held on Bandes' behalf represent the China-Venezuela joint fund.

¶7. (C) Summing up the assets mentioned in paragraph 6 and discounting by 30 percent any assets whose liquidity or current value is in doubt (i.e., all assets except those held by the BCV or as deposits in the banking system), we arrive at an estimate of USD 89 billion in total financial assets available to the GBRV in the short term, with Bs assets converted to USD at the official rate. This figure can be broken down as follows: USD 40 billion in reserves, USD 15 billion in funds outside of reserves, Bs 53 billion in bolivar assets, and the equivalent of USD 10 billion in funds

whose denomination (Bs or USD) is not clear. This estimate is based on a number of admittedly questionable assumptions, including the discount percentage used and the figures taken from the balance sheets of many of the GBRV institutions.

¶8. (C) A variety of factors limit the actual amount the GBRV could draw on to cover budget or currency shortfalls. Some of the specific factors are mentioned above, including problems associated with a large scale withdrawal of GBRV funds from the banking sector, the fact that some of Fonden's assets are already committed to projects, and the difficulty of liquidating a large position in monetary gold. In addition, there are some restrictions on how the China-Venezuela joint fund can be used, with a small team from the Chinese side present in Caracas to monitor implementation. More generally, a significant drawdown of financial assets by the GBRV, should it take place, could provoke an economic crisis before the drawdown was complete as expectations of a crisis increased.

Comment

¶9. (C) The deliberate lack of transparency in many GBRV financial institutions and PDVSA makes it impossible to develop an accurate estimate of the current value of the GBRV's financial assets. Indeed, we would not be surprised if no one in the GBRV, including President Chavez himself, could give an accurate estimate. Our analysis in paragraph six is useful as a ballpark guide, however. It gives a sense of the room President Chavez has to maneuver in 2009, as he reviews options such as reducing spending, issuing internal debt, raising taxes, further restricting imports at the official rate, and/or a devaluation in order to keep Venezuela's economy propped up at the lowest political cost should oil prices remain below USD 70 per barrel. While not publicly admitting it, the GBRV already appears to be operating in a tighter financial environment: several pending nationalization deals have yet to be struck, for example, and payment has not materialized for others (septel). We will return to this analysis of the GBRV's

financial assets as the economic situation and GBRV policy
evolve. End comment.
CAULFIELD